

INTERNET DOCUMENT INFORMATION FORM

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Emerging Role of Banks in E- Commerce

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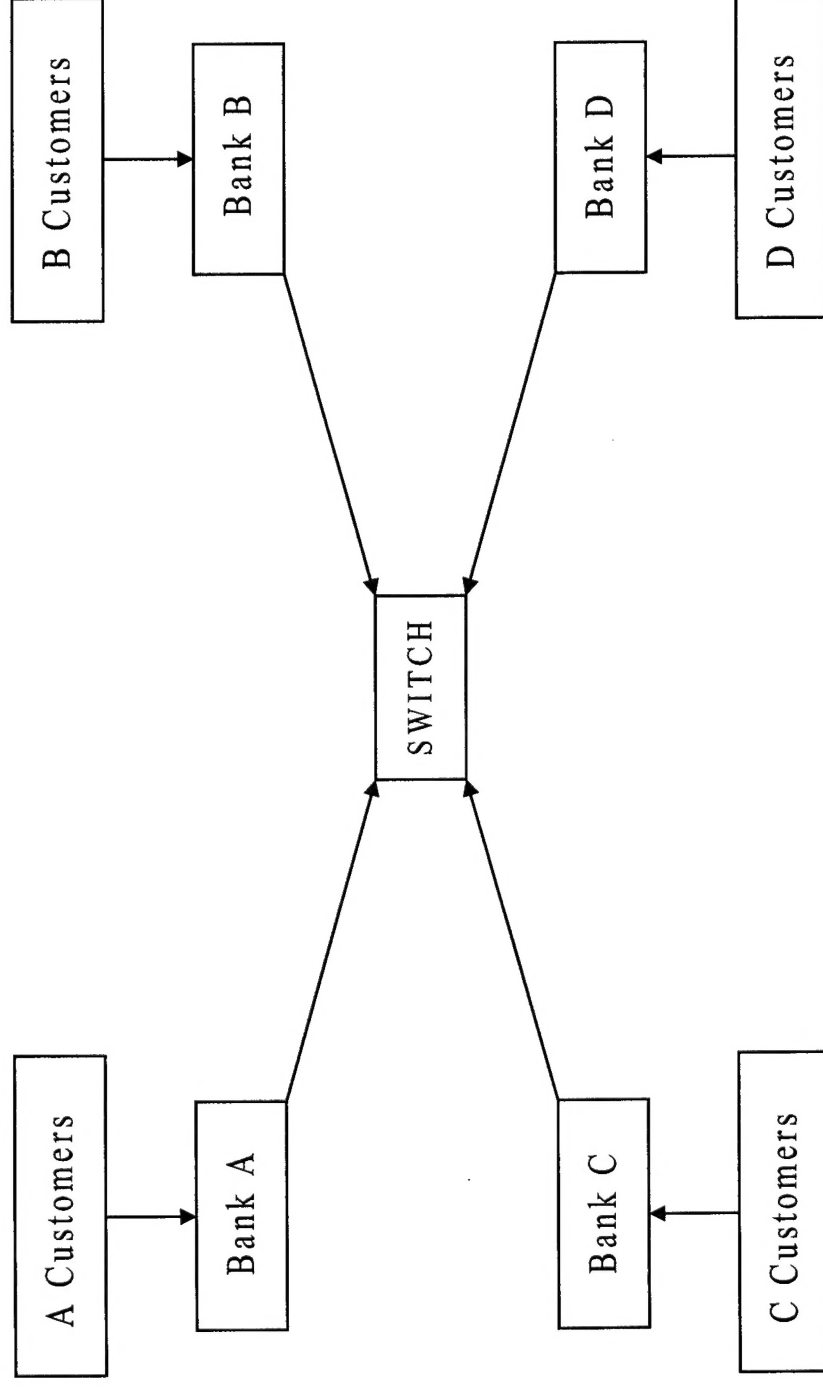
What is E-Commerce

- Business conducted on line over computer networks (B2B > B2C)
- Supply chain management -- procurement and distribution
- Electronic exchanges

Likely Role of Banks

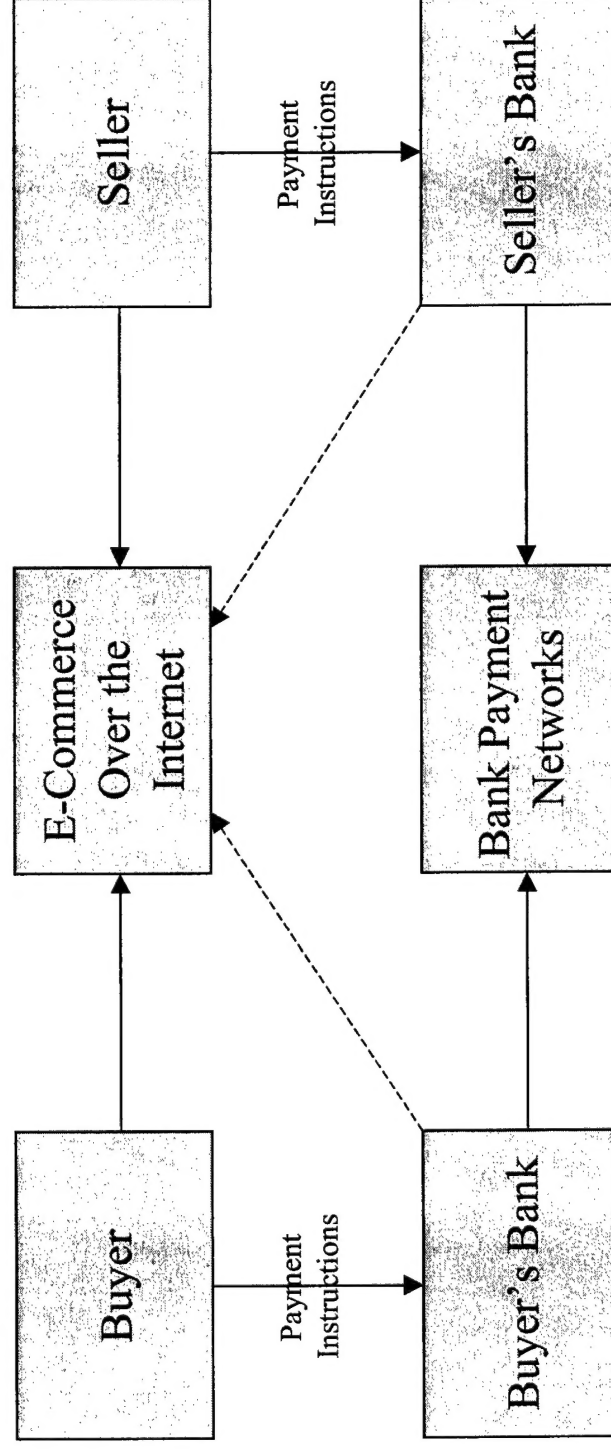
- Access to Conventional Banking Products over the Internet
- Development of New Products to Facilitate E-Commerce

Banking Networks



Transactional vs. Marketing

Role of Banks in E-Commerce



Conventional Products

- **Brochure Sites**

- Product Offerings
- Information about the Bank

- **Transactional Sites**

- | | |
|-----------------------|-------------------|
| • Account Information | EFT |
| • Balance Transfer | Letters of Credit |
| • Credit Applications | Cash Management |
| • Bill Payment | Foreign Exchange |

Bank Advantages E-Commerce Products

- Account Relationships
- Trusted Third Parties for Transactions
- Strong Brand Names

Why Develop New E-Commerce Products

- Strengthen Relationships
- Create Opportunities to Sell Products
- Prevent Technology Companies and Nonbank Financial Companies from Taking Their Customers

New Products

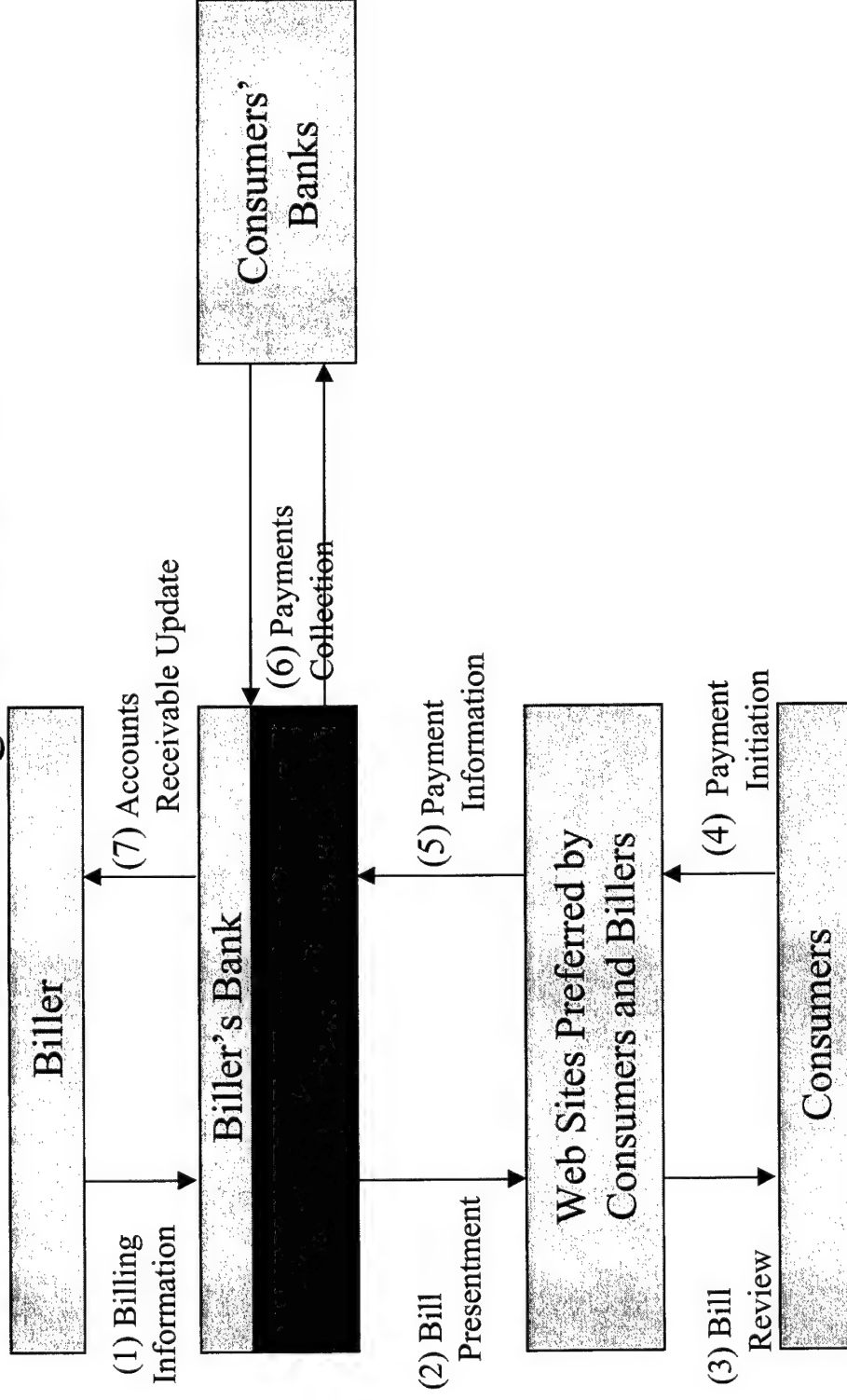
- Establishing Internet Portals
- Verifying Identities
- Offering P2P Payment Services
- Enabling B-to-B E-Commerce (supply and demand chain management)
- Issuing Electronic Money and Checks
- Electronic Bill Presentment and Payment

Internet Payments

- <http://www.emoney.com/> (Bank One)
- <http://www.tradesafe.com/> (FleetBoston)
- <http://www.billpoint.com/> (Wells Fargo)
- <http://www.x.com/> (X.com)
- STAR and NYCE (ATM Payments)
- <http://www.nobil.com/> (credit cards)

E-Billing

Bank Operated Cash Management Model



Risks Banks Face

- Strategic Risk
- Operational Risk

Strategic Risk

- Competitive (Internet-only banks, technology companies acting as banks, and information aggregators)
- Adjustment (Optimum size of branch networks, and involvement in conventional banking networks)

Operational Risk

- Computer or network failures could damage bank reputations.
- Hackers could create fraudulent transactions
- Concentration of risk if extensive outsourcing to common service provider

Risk Management

- Improved Information Systems
- Back Up Systems (wholesale payments model)
- Emphasis on Electronic Security

Conclusions

- Banks are already active in E-Commerce
- Traditional and new products
- Facilitators of E-Commerce
- Risks and Risk Management (strategic and operational risks)

Not Just Banking

- <http://www.tradeweb.com/>
- <http://www.cfoweb.com/>
- <http://www.bondconnect.com/>
- <http://www.marketaxess.com>
- <https://www.ebondtrade.com/>
- <http://www.currenex.com/>
- <http://www.muniauction.com/information/>

Market Forces

- Institutional Investors
 - Increased price Transparency
 - Aggregated real time information
- Implications
 - Spread Reductions
 - Cost Reductions through Automation
 - Fragmentation of Information and Liquidity